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~~TOP SECRET~~

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State Dept., OSD reviews completed

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EUROPE-AMERICA-MIDDLE EAST

1. **BULGARIA: Government Reactions**--The UNO decision in the Greek issue has made a deep impression in Bulgaria. The Fatherland Front Press has expressed pleasure that conciliation produced an amicable solution. On the other hand, the fact that Rumania has succeeded in obtaining American recognition and Bulgaria has not, has increased government resentment against the Bulgarian opposition.
A cabinet member recently quoted Stalin as saying to a Bulgarian minister in Moscow: "Who obliged you to negotiate with the opposition? No such decision was taken at Moscow and the opposition does not deserve such attention. Perhaps that is right that you may not be recognized troubles you. It should not bother you in the least. We were not recognized for twelve years, and then our friendship was sought. If you are not recognized today or tomorrow you certainly shall be within a few months."
2. **YUGOSLAVIA: Terrorist Activities**--Secret police officials have been harassing US maritime personnel in port, and in one case armed police boarded a US vessel and forcibly removed a Yugoslav citizen. Children are being tried as "fascists and reactionaries" in Yugoslav schools. Many have been expelled following "trials" by Communist Youth Union members in the presence of school officials. Anti-AMG propaganda is increasing in Venezia Giulia, where Slovenes charge AMG with setting up pro-Fascists in administrative posts.
3. **HUNGARY: Fiscal Crisis**--Nagy Eotvos, new Prime Minister, intends shortly to make a frank statement of Hungary's inability to meet reparations obligations, to request a moratorium, and to invite the Allies to examine its economic situation. The Prime Minister has stressed to the US Minister the importance of restitution of Hungarian property in US zones. In pressing Nagy to accept his new post, Soviet Commissar Vorshilov promised reconsideration of reparations and substantial withdrawals of Soviet troops by spring. The US Minister urges extending credit to Hungary at least for purchase of surplus army equipment. He considers that, unless US interest in Hungary increases, the USSR will obtain monopolistic control of the country.
4. **ITALY: Action Leader Resigns**--Ex-Premier Ferruccio Parri resigned yesterday as leader of the Action Party and announced his intention to form a new Party. The concurrent resignation of the bulk of the other members so weakens the Party that a reshuffling of Cabinet posts among the remaining five coalition parties may result. Parri ascribed his action to the Action Party's failure to oppose extremist ideologies and reactionary forces.

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5. **GREECE: EAM Election Plans**--British Foreign Office official believes that the Communist EAM will probably take part in the Greek elections, despite its announcement to the contrary. Because of the predominantly anti-Slav sentiments of the Greek people, EAM's support of Vyshinsky's recent complaint against Britain has increased EAM's unpopularity, he feels.
 6. **FRANCE: National Defense budget** for 1946 has been set by the Gouin Cabinet at 140 billion francs, which will permit a force of 600,000 men. This is 60 billion francs less than the DeGaulle Cabinet's original budget demands and will mean the immediate reduction of the armed forces by 335,000 men.
 7. **EGYPT: Anti-British Riots** In Cairo yesterday continued for the third day and spread to Alexandria, Mansoura and the Delta area. Students protested against British policy and demanded the resignation of Premier Mokhrisi. He is currently discussing Anglo-Egyptian treaty revisions with British representatives.
- GENERAL**
1. **Selection of Site**--The UNO subcommittee yesterday in effect approved selection of the General New York-Connecticut area as the permanent UNO headquarter's site, by adopting the Netherlands resolution. The resolution now goes to the General Assembly where a brisk fight is expected over the French contention that a two-thirds vote is necessary to secure passage. If adopted, the resolution will probably recommend that the US designate a Planning Commission.
 2. **INDONESIAN COMPLICATIONS**--British-Dutch Indonesian conversations opened on 10 February. The US will not designate an observer to attend. In London Stettinius, on behalf of the US, has opposed the appointment of a Commission of Investigation by the Security Council as suggested by the Ukrainian delegation, on the grounds that the situation offers no immediate danger to international peace.
 3. **BULGARIAN GOVERNMENT**--Bevin will not take the initiative in raising with Vyshinski the question of broadening the basis of the Bulgarian Government, but, if Vyshinski brings up the issue, he will state that Britain will not press the opposition to accept their Government's conditions for the inclusion of opposition representatives. He will also declare that, in view of the Soviet refusal of US suggestions for broadening the Government, the responsibility for further suggestions rests with the USSR.

FOR FAST

1. **CHINA: Government Reorganization** is expected to follow approval by the major political parties of the resolutions recently adopted by the People's Consultative Council. Favorable party action is expected despite continuing Kuomintang-Communist distrust. Military reorganization remains the most pressing problem. Preliminary talks regarding the reorganization of the Communist Army, prior to its merger with the National Army, began yesterday with General serving as adviser. For more information see JCS that the US military

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Gen. Marshall agrees to early war settlement negotiations with China but believes the US might await the meeting of the Central Executive Committees of the leading Chinese parties, scheduled to convene early in March.

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3. N.F.I: Outlook Brightens-- Clark Kerr has deeply impressed the Indonesian Prime Minister will urge other native leaders to seek a reform rather than lose everything.

1. ADDITIONAL: Evidence of Argentina's collaboration with the Nazis, compiled in preliminary report form by the State Department, was presented to the Ambassadors of other American Republics yesterday.

2. CHILE: Coal Crisis--The Chilean government fears that the coal miners--slow to return from the general strike which ended last week--may soon start a new strike. The coal shortage already is critical.